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Bulgaria

Dairy and Products

Sector Update

2007

Approved by:
Susan Reid
U.S. Embassy

Prepared by:
Mila Boshnakova

Report Highlights:
The Bulgarian dairy sector is facing numerous challenges related to the feed deficit, introduction of dairy quotas, and lack of quality fresh milk. Price rally, both for fresh milk and processed dairy products, and increasing demand from neighboring countries are negatively affecting domestic consumption. These circumstances are expected to lead to excess slaughter of dairy cows at smaller farms, and lower milk supplies. Consumption of processed dairy products is projected to stagnate. Higher consumer prices will likely attract more competitive imported products.

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Dairy sector development in 2006

Fresh milk supply and milk deliveries

Total milk production in 2006 was slightly above 2005 (0.5 percent) but still below 2004 level (Table 7). The supply of cows milk has increased (0.8 percent) along with commercial supplies (deliveries), both in absolute terms, 4.5 percent, and as a share of total milk production (Table 6).

It is expected that in 2007, the trend towards a rising share of commercial deliveries will continue, and exceed 65 percent. Deliveries will come mainly from larger farms, not from smaller/medium size farms which are declining in number and market size. However, in absolute terms, milk for processing will be limited by the quota for deliveries of cows milk - 722,000 MT - which is about 93,000 thousand liters below the quantities delivered in 2006. This limitation is among the major forces behind restructuring and competition in the dairy sector in 2007.

Total milk deliveries in 2006 were 4.1 percent more than in 2005. Traditionally, cows milk has accounted for 95 percent of all milk deliveries (Table 2). In absolute terms the quantities of processed buffalo and sheep milk declined (-13.5 percent and - 4.9 percent) counterweighted by almost 30 percent increase in supply of goat milk (Table 1).

Dairy quotas 2007

The 2006 trend toward higher milk production and deliveries was maintained in the first half of 2007. In mid-2007, farmers started to receive their first dairy quotas, which considerably affected their economic plans.

Larger, more progressive farms who have invested in expanded herds are concerned that their quotas are not sufficient and that they will be fined for oversupplying milk, especially if the MinAg does not approve the final distribution of the special milk reserve of 92,463 MT (see BU7023). In July and August 2007, these farmers were pressured also by the feed deficit and increasing production costs. Some of them have reportedly already filled milk quotas.

The fact that trade in milk quotas does not exist yet is a critical issue. The National Dairy Board appealed to the GOB for faster response in setting up the necessary regulations. This unsettled situation may lead to under-quota production by smaller/medium farmers and over-quota production for larger ones.

Feed deficit

This year drought caused feed shortages (see BU7021) and has severely hurt small dairy farms (over 90 percent of all farms), especially those in mountain areas. These farmers have no financial ability to buy expensive feeds that are in short supply. They struggle with lack of or reduced dairy quotas, and with lower quality milk, refused by most commercial dairies. As a result, many small farmers have reported forced slaughter of dairy cows. This trend is likely to continue in the fall and winter. Some farmers sell their cows but most prefer to slaughter them for on-farm meat consumption due to increasing meat prices. A reduction in the dairy herd of 10 to 20 percent is likely to occur, mainly at smaller farms, as a complex result of feed shortages, higher input costs, introduction of milk quotas, and milk quality requirements.

Commercial dairy farmers addressed the feed deficit and growing shortage of fresh milk by negotiating higher milk purchase prices. Prices in August average 0.65 leva/liter (0.32 Euro/liter) reaching 0.75 leva/liter (0.37 Euro/liter) in some regions, compared to 0.50 leva/liter (0.25 Euro/liter) earlier in the year. Farmers also request higher government milk subsidies.

Dairy processed products market

Dairy restructuring

The process of plant restructuring to meet EU sanitary and hygiene requirements was painful for many dairies. In the period March-April 2007, the MinAg interviewed 238 dairies and many of them reported only part-time work during 2006. Overall, the number of dairies operating in 2006 was 21 percent lower than in 2005. The greatest decline was in the number of small plants, 34.5 percent, shut down by the Vet Service Office. In 2006, small plants processed about 14 percent of all milk (a decline of 10 percent compared to 2005) while medium and large plants accounted for 86 percent of processed milk.

Bulgaria still struggles to meet the EU hygiene and sanitary norms at dairy plants. In 2006, EU approved plants processed 40 percent of all milk (340 million liters). It is expected that in 2007, the share of this milk will be 50 percent due to a higher number of approved plants (Table 4).

Dairy products market, 2006

The supply of processed dairy products in 2006 remained stable. Growth was registered for some processed products such as fluid milk (10 percent), and flavored yogurt and milk desserts (43.5 percent). Output of natural yogurt and butter declined, 8.2 percent and 33.5 percent, respectively.

Cheese production in 2006 registered a slight 1.2 percent increase. Within this category, yellow cheese supply was 9.3 percent higher than in 2005, mainly due to good export demand, while white cheese production was unchanged. Cows milk cheeses output accounted for 89 percent of all cheeses. Cheeses produced from sheep and goat milk had the highest growth, 11 percent and 62 percent, although they accounted for only 10 percent of all cheeses. Yellow cheeses from sheep and goat milk, the best export products, registered 54.4 percent and 34.2 percent , respectively, growth in output (Table 5).

Dairy products market, 2007

Increasing shortages of fresh milk, as well as the deficit of quality milk, will likely lead to good opportunities for imports of substitutes such as NFDM and WDM. Industry reports significant imports of German milk powder for the first 7 months of the year. In addition, the soaring costs of fresh milk and processed products may lead to imports of price competitive dairy products, especially cheese, from the EU members states and from third countries as well.

Prices

In July and August 2007, consumers witnessed the fastest and sharpest increase in dairy products prices in the last 9 years.

The most notable was the price escalation for cheese. The official statistics recorded 7-10 percent increase in cheese prices in July vs. June. However, in the first 20 days of August, cheese price was 22 percent higher than in the last two weeks of July. This trend was in line with other staple food products price development: eggs, 20 percent, and 10-15 percent for vegetable oil, wheat flour and poultry meat. Consumer dairy products prices in August 2007 are on average 50 percent higher than a year ago. As of mid-August, white cheese was sold at 2.75 Euro/kilo, and yellow cheese, at 4.00 Euro/kilo. Industry experts forecast annual average increases of 60 percent for all dairy products, as the white cheese price may reach 2.75 Euro/kilo, and yellow cheese, 6.0 Euro/kilo by the end of the year. Yogurt price in July/August was 10 percent higher and the annual increase is likely to be 20-30 percent.

Powder milk import prices (mostly EU origin) have also soared, from 2.2 Euro/kilo in early 2007 to 4.0 Euro/kilo in July. Fresh milk prices as of July/August were on average 40 percent higher than in January.

The food price escalation is caused by complex reasons, among which drought, grain/feed/protein deficit, higher energy and labor expenses, and finally the integration of the Bulgarian market into the single EU market at all food chain levels. For example, Bulgarian dairies were forced to rapidly increase purchase prices for fresh milk, not only due to its shortage and higher cost but also due to demand from Romanian and Greek dairies who began to buy Bulgarian fresh milk. Similarly, Romanian and Greek traders are buying local cheese, still less expensive in Bulgaria than on these markets. Bulgarian dairies are concerned that the veterinary control is weak and non-EU approved dairies are selling their processed products to Romania and Greece.

The general public and media accused feed suppliers of price hysteria. The Union of Compound Feed Producers made public statements to refute these allegations. Feed manufacturers confirmed that the feed prices became 20-30 percent more expensive (compared to 2006), but insisted that this could not be the only reason for dairy and meat prices going up 50-60 percent (Table 9). Feed manufacturers had to reduce their profit margins to 7 percent to maintain affordable feed prices; thus despite 40-50 percent more expensive wheat/barley and corn, compound feed prices grew 20-36 percent.

Price increases for processed dairy products are negatively affecting the consumer demand. Limited disposable income will likely shift consumption to less expensive products and/or substitutes. The trend of steady growth in consumption observed over the last 5-6 years is forecast to reverse. Although most experts anticipate a significant decline in overall consumption, traders and retailers report stagnation. Therefore, 2007 dairy products consumption will likely stay at the same level as in 2006.

Policy

In early August, two industry associations from the dairy and meat sectors (uniting medium and larger size companies) sent a protest note/letter to the EC against the political decision of the Bulgarian Minister of Agriculture to request an extension of the grace period for local dairy and meat products plants (See BU7023). The letter was sent following a high level political meeting. Industry associations expressed their concern that such a decision hurts the plants already approved by the EU which were the most active in investment and upgrading their facilities. They say the political decision was taken in favor of companies close to a political party, to give them more time to respond to EU criteria.

Approved dairy establishments are limited in their ability to trade on the single market due to shortages of EU quality milk (see BU7023). The associations think the Bulgarian consumers have equal rights with EU consumers, and should not consume inferior quality product made by non-compliant establishments. The priority for the industry is unconditional shutting down of all EU non-compliant meat and dairy establishments by the end of 2007.

This new situation puts a different light on the Bulgarian request for the extension of the grace period for the dairy industry. Today, a compromise decision by Brussels seems the most likely scenario.

Table 1. Volume and types of processed milk (milk deliveries for processing) in 2004-2006, in thousand liters

Volume of milk deliveries for processing in 2004-2006, in thousand liters							
	2004		2005		2006		2006 vs. 2005
	000 liters	% of total processed milk	000 liters	% of total processed milk	000 liters	% of total processed milk	
Cows milk	774, 310	94.5	779,685	94.6	814,941	95.0	+4.5
Sheep milk	40,538	5.0	41,212	5.0	39,188	4.6	-4.9
Goat milk	2,359	0.3%	1,973	0.2	2,556	0.3	+29.5
Buffalo milk	1,750	0.2	1,714	0.2	1,482	0.1	-13.5
Total	818,957	100	824,584	100	858,167	100	4.1
Source: MinAg Bulletin #112, 2007							

Table 2. Total processed milk (deliveries), 000 liters, 2004-2006

Total processed milk (deliveries), 000 liters, 2004-2006			
	2004	2005	2006
Total milk	818,957	824,584	858,167
Cows milk only	774,310	779,685	814,941
Other milk	44,647	44,899	43,226
Source: MinAg Bulletin #112, 2007			

Table 3. Production and processing of milk, 2006, thousand liters

Production and processing of milk, 2006, thousand liters		
	Total milk	Cows milk only
Processed at dairies	858,167	814,941
Direct sales from farms	198,489	136,923
On-farm consumption	336,369	235,779
Other use on-farm (for feed)	78,364	73,240
Total milk	1,471,389	1,260,883
Source: MinAg Bulletin #112, 2007		

Table 4. Dairy establishment by categories, 2006

Dairy establishment by categories, 2006			
	Number of plants	% of establishments	Share in processed milk
Meeting EU requirements	22	9.2%	39.5%
Expected to meet the EU requirements	216	90.8%	60.5%
Source: MinAg Bulletin #112, 2007			

Table 5. Manufacturing of dairy products, 2005- 2006

Manufacturing of dairy products, 2005- 2006			
Dairy products	2005	2006	2006 vs. 2005
Fluid milk, 000 liters	44,533	48,948	9.9%
Cream, MT	1,605	1,639	2.1%
Yogurt	141,992	130,325	-8.2%
Milk desserts	12,357	17,733	43.5%
Cheeses	86,555	87,601	1.2%
Incl. from cows milk	76,032	77,086	1.4%
Milk fats	3,688	2,451	-33.5%
Source: MinAg Bulletin #112, 2007			

Table 6. Production and utilization of milk, 2004-2006

Production and utilization of milk, 2004-2006						
	2004		**2005**		**2006**	
	Total milk	**Inc. cows milk**	**Total milk**	**Inc. cows milk**	**Total milk**	**Inc cows milk**
Total Milk Production (thou liters)	1,551,054	1,305,582	1,463,740	1,249,426	1,471,389	1,260,883
Used as feed	84,604	52,653	56,984	44,960	78,364	73,240
Used on farm (self-consumption)	352,773	205,464	332,845	224,746	336,369	235,779
Direct sales	294,720	273,155	249,327	200,035	198,489	136,923
Delivered for processing	818,957	774,310	824,584	779,685	858,167	814,941
Source: MinAg statistical bulletins						

Table 7. Production and processing of milk, 2004-2006 in thousand liters. Relative share of deliveries to total milk

Production and processing of milk, 2004-2006 in thousand liters. Relative share of deliveries to total milk					
2004		2005		2006	
Total milk	Deliveries	Total Milk	Deliveries	Total milk	Deliveries
1,551,054	818,957	1,463,740	824,584	1,471,389	858,167
	52.8%		56.3%		58.3%
Cows milk	Deliveries	Cows milk	Deliveries	Cows milk	Deliveries
1,305,582	774,310	1,249,426	779,685	1,260,883	814,941
	59.3%		62.4%		64.6%
Source: MinAg statistical bulletins					

Table 8. Cheese Supply and Demand, MT, 2005-2007

Cheese Supply and Demand, MT, 2005-2007			
	2005	2006	2007
Beginning Stocks	5,000	5,000	5,000
Production	87,000	88,000	90,000
Imports	3,000 (all EU origin)	3,000 (all EU origin)	3,000 (all EU origin)
Total Supply	95,000	96,000	98,000
Exports	14,000 (inc. 9,000 extra EU)	13,000 (Inc. 8,000 extra EU)	14,000 (inc. 9,000 extra EU)
Consumption	75,000	77,000	77,000
Losses	1,000	1,000	1,000
Total consumption	90,000	91,000	78,000
Ending stocks	5,000	5,000	6,000
Total distribution	95,000	96,000	98,000
Note: FAS office estimates			

Table 9. Union of Feed Manufacturers Price Estimates

Product and approximate feed needed for production	Feed price, Euro/MT	Estimated price by the Union	Actual price at the retail level
Pork= 3 kilos of feed	242-297	3.0-3.50 Euro/kilo	4.5 Euro/kilo
Poultry=1.8 kilos of feed	253-292	1.50-1.75 Euro/kilo	2.50 Euro/kilo
Beef=3.5 kilos of feed	218-231	2.50-3.0 Euro/kilo	4.0-5.0 Euro/kilo
Cheese=6 liters of milk	0.20 Euro/liter of milk	1.50 Euro/kilo	2.5-4.0 Euro/kilo